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Special high-level meeting with the Bretton Woods institutions, the World Trade Organization and the United Nations Conference on Trade and Development

Provisional summary record of the 6th meeting
Held at Headquarters, New York, on Thursday, 10 March 2011, at 3 p.m.

President: Mr. Kapambwe ..... (Zambia)

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The meeting was called to order at 3.10 p.m.

Special high-level meeting with the Bretton Woods institutions, the World Trade Organization and the United Nations Conference on Trade and Development (*continued*)

Address by the Secretary-General of the United Nations

1. **Mr. Ban Ki-moon** (Secretary-General of the United Nations) said that the world was still reeling from the financial and economic crisis. The path to recovery had been slow, fragile and uneven; rising debt levels, growing inequality and social exclusion were real concerns; and devastating natural disasters and the impacts of climate change continued to jeopardize development gains. The 2012 United Nations Conference on Sustainable Development, to be held in Rio de Janeiro, would be a valuable opportunity to develop an integrated approach to those challenges.

2. Recent spikes in food and energy prices were putting at risk the past decade of progress in lifting millions of people out of poverty. The Food and Agriculture Organization of the United Nations (FAO) Food Price Index was at its highest since its inception in 1990, and millions of people in developing countries had been driven into poverty.

3. The recent historic developments in North Africa and the Middle East had important political and economic implications. Although events were still unfolding, they had already highlighted once again the nexus between poverty, unemployment, inequality and instability. Inclusive, democratic and honest governance was a crucial part of the quest for social justice and human dignity. The United Nations must respond to those challenges by charting a course for truly sustainable and equitable development.

4. Progress towards the Millennium Development Goals (MDGs) had been uneven. More investments in job creation, food security, health, clean energy, infrastructure and climate adaptation were needed. One of the main messages of the September 2010 MDG Summit had been the need to strengthen the global partnership for development.

5. That partnership was not just about aid, important as that was; it also required debt relief; access to essential medicines and technology, including information and communications technologies; and an open trading system that did not put developing countries' goods and services at a disadvantage. He therefore called once again for a successful conclusion to the Doha Development Round of multilateral trade negotiations. Aid for trade was vital, but it would do little good if global markets were blocked or intrinsically unfair.

6. The partnership for development also emphasized mutual accountability. The United Nations system was making good progress in developing an integrated implementation framework, but it depended on the support of all its partners.

7. The world's poorest countries continued to confront significant levels of poverty and hunger. They were among the most vulnerable to climate impacts and, since they spent up to 75 per cent of household income on food, they were also disproportionately susceptible to price shocks. The fourth United Nations Conference on the Least Developed Countries, to be held in Istanbul in May 2011, would provide an opportunity to respond to their plight. All countries should participate at the highest level with a view to the adoption of a programme of action that could generate tangible results.

8. The needs and development concerns of middle-income countries did not always attract the attention they deserved. However, it was those countries that, to date, had led the recovery in an impressive performance that followed decades of efforts to diversify exports and increase market shares for their high-technology goods. Yet, despite notable reductions in poverty levels, many middle-income countries faced rising inequality, persistent extreme poverty and a lack of adequate social security systems. Further efforts to improve safety nets and economic security were needed.

9. The international community must work together to strengthen the role of the United Nations in global economic governance by identifying the comparative advantages of the relevant institutions; making United Nations bodies and other stakeholders more efficient, effective, accountable and representative; providing greater coherence and more partnerships; doing more with scarce resources; and continuing to strengthen the United Nations from within.

10. In a volatile and changing world, the United Nations must not disappoint the many millions of people who looked to it for help and assurance. It must respond to the full spectrum of their aspirations —

economic, social, environmental and democratic — and listen to their voices.

Thematic debate of the whole on Theme 2: "Financial support for development efforts of middle-income countries: development cooperation, trade, capital flows, policy space and reserve system" (E/2011/74)

(a) Presentation on the MDG Gap Task Force Report 2010: The Global Partnership for Development at a Critical Juncture *by Mr. Robert Vos, Director, Development Policy and Analysis Division, Department of Economic and Social Affairs*

11. **Mr. Vos** (Director, Development Policy and Analysis Division, Department of Economic and Social Affairs), accompanying his presentation with computerized slides, said that at the recent MDG Summit, existing commitments to achieving the Goals had been reaffirmed, as had the importance of greater coherence in global partnerships for development and the need to scale up effective national development strategies with an emphasis on national ownership.

12. With regard to the aid agenda, there was an estimated shortfall of US$ 20 billion at the 2009 rate of exchange in short-term commitments, of which US$ 16 billion had been pledged to assistance for African countries. While both the commitment to increase aid and the United Nations target of 0.7 per cent of Gross National Income (GNI) for development had been reconfirmed at the MDG Summit, no schedule or intermediate targets for that increase had been established.

13. In order to ensure greater coherence among development and other agendas, more attention should be given to the question of how to better align the mobilization of aid resources and to provide greater budget support for the broader development objectives of recipient countries. Many global funds applied vertical funding for specific purposes and while that practice could be effective, it did not always work well with broader national development strategies. Another problem faced by the Millennium Development Goals (MDG) Gap Task Force was the lack of clarity as to whether the pledges of assistance made at high-level meetings were new or fell under existing commitments.

14. As the global economic crisis had led a number of donor countries to scale back some of their aid budgets, it would be advisable to consider alternate sources of international development assistance, including international taxation and other forms of innovative financing that would entail multilateral accountability rather than mere accountability taxpayers in donor countries.

15. With regard to sustainable global rebalancing, the targets set for development assistance implied that net transfers were being made not only from developed to developing countries, but also increasingly from one developing country to another. However, in order for net transfers to be effective in terms of investment in sustainable development objectives related to the MDGs, recipient countries should be running deficits rather than surpluses; that was not always the case.

16. The MDG Summit had called on Member States to intensify efforts to conclude a truly development-oriented Doha Round, move swiftly towards providing developing countries with duty-free and quota-free market access, eliminate agricultural export subsidies by the end of 2013 and strengthen the Aid for Trade Initiative. Duty-free and quota-free market access for developing countries had not expanded significantly in the period covered by the 2010 MDG Gap Task Force Report. Agricultural subsidies were another area of concern; they remained high in Organisation for Economic Co-operation and Development (OECD) countries, undermining the competitiveness of agricultural producers in developing countries, which in turn contributed to food insecurity and instability in food prices.

17. It remained to be seen whether the current aid-for-trade allocation — 25 per cent to the least developed countries and most of the rest to middle-income countries, including China and India — was the right one. It was also necessary to determine the extent to which aid-for-trade resources were aligned with national development strategies; ideally, they should be fully integrated into domestic budget plans that strengthened production and trade capacities in order to fulfil the promise of duty-free and quota-free market access. Looking ahead to the 2012 United Nations Conference on Sustainable Development, the issue of the green economy would have major implications for the trade agenda and the Doha Round.

18. The MDG Summit had raised key issues on debt sustainability and proposed several courses of action. The option of debt moratoriums for countries affected by emergency situations should be considered. Official development assistance (ODA) should be provided as

grants rather than loans, independent arbitration or mediation schemes should be set up and ad hoc meetings of debtors and creditors should be organized in order to establish debt workout mechanisms. Eligibility to participate in the Heavily Indebted Poor Countries (HIPC) Initiative, which had expired in 2006, should be reopened and extended to countries not already participating. Lastly, multi-stakeholder expert group meetings should be held in order to develop workout mechanisms for countries with major sovereign debt problems.

19. The question of how to adjust existing debt sustainability frameworks in order to accommodate public spending needs had yet to be resolved. In line with the MDGs and sustainable-development agendas, Governments needed to scale up public investments and spending in the areas of health, education and, in order to start the transition to a green economy, infrastructure. If countries were in a position to mobilize additional resources for that purpose from domestic sources, particularly tax reforms, the sustainability of their debt would not be greatly affected. However, if the investment required was too high, more ODA or additional lending through multilateral development banks and international capital markets could provide external funding.

20. The additionality of debt relief should be considered in light of the early consensus that such relief should not be counted as ODA; however, many donors had failed to honour that agreement in practice. In the aftermath of the financial crisis and the ensuing rise in public indebtedness in developed countries, financial safety nets and compensatory financing had been significantly reformed. However, they were not yet fully aligned with sovereign debt workout mechanisms, which were increasingly necessary, and it was necessary to determine what form those mechanisms might take.

(b) Presentation on "Lessons from the recent crisis for the reform of the international monetary and financial system and for development strategies" by Mr. Detlef Kotte, Head, Macroeconomic and Development Policies Branch, Division on Globalization and Development Strategies, United Nations Conference on Trade and Development

21. **Mr. Kotte** (Head, Macroeconomic and Development Policies Branch, Division on Globalization and Development Strategies, United Nations Conference on Trade and Development), accompanying his presentation with computerized slides, said that there were three main challenges facing developing countries, particularly middle-income countries, as a result of the economic crisis. The first related to global macroeconomic interdependence and the expectation of slower growth in the United States of America, which had been the growth engine of the world to date, and to the rapid growth of imports from some major middle-income countries, particularly China; the second to the impact of that change on the global demand for development strategies, and to the need to stimulate domestic demand as a force for growth; and the third to institutional reform; in that connection, the secretariat of the United Nations Conference on Trade and Development (UNCTAD) had made proposals on reform of the exchange rate and was continuing to study the matter.

22. In the aftermath of the recent financial crisis, the question of how to rebalance the world economy remained unresolved. The post-crisis recovery had been led to a great extent by large middle-income countries, particularly China, India and Brazil. The fiscal stimulus programmes launched by China and Brazil had benefited both their national economies and the world economy. However, the partial recovery made by other major-surplus countries, particularly Japan and some countries in Europe, had relied heavily on exports while domestic demand remained weak. There was a risk that abandoning expansionary, fiscal, and, in some cases, monetary policies might lead to an overreliance on exports that would shift the burden of demand stimulus to other countries, not all of which could create employment on the basis of low wages.

23. Promoting growth of domestic demand would require strategies for job creation, poverty reduction and improved standards of living in developing countries. According to several analyses, including that of UNCTAD, slower growth of demand in the United States of America would not be sufficiently compensated for by expansion in other countries. Despite China's policy of stimulating domestic demand and its rapidly rising wages, much of the additional demand would be satisfied within that country rather than by additional imports. Thus, countries could not rely solely on exports as they had done in the past. The necessary expansion of domestic demand would

require changes in monetary, fiscal and financial policies. In many middle-income countries, higher fixed investment meant improved access to investment finance; the limited availability of bank credit for investment was a weakness in the financial systems of those countries, while their real interest rates were prohibitively high for potential investors. While higher domestic consumption would be possible even in poor countries, it would require a rise in the purchasing power of the population that, in turn, depended on faster wage growth, which had driven growth in post-war Europe and Japan. It was important to keep the exchange rate stable, as an increase would reduce the competitiveness of the economy and dissuade potential investors. Fiscal stimuli, a new and successful policy response to the recent financial crisis, could also stimulate investment capital accumulation in the long run.

24. The financial system in middle-income and least developed countries was still being designed. There was broad agreement across the political spectrum on the need for regulation and supervision, rather than allowing financial sector development to proceed solely through financial liberalization, especially in middle-income countries. A number of regional and global financial crises had shown that dismantling the obstacles to cross-border private capital flows was not the best recipe for accelerating fixed investment; surging capital flows were a potential source of instability and could have repercussions on a country's trade and macroeconomic situation. Moreover, the exchange rate effects of speculative capital inflows distorted competitiveness and could counteract gains achieved through trade liberalization.

25. Over the past three decades, development strategies had relied heavily on exports for growth, improved living standards, job creation and industrialization; that phenomenon had, in turn, led to an international wage competition among middle-income and developed countries in order to attract foreign direct investment (FDI). Owing to lower labour costs, productivity growth had significantly exceeded wage growth. Though that strategy might work for a few countries, it would result in secular decline in the wage share if all countries with a similar structure proceeded in that manner. The alternative to an exclusively export-based strategy would be one in which domestic demand also played an important role. Income policy should therefore provide for a regular upward adjustment of wages in proportion to productivity growth. Linking the two would avoid an increase in unit labour costs that would make economies uncompetitive; it would also check inflation and stabilize price levels.

26. On the issue of reform of the international monetary and financial system and of the international development strategy framework, he welcomed the shift in global economists' perception of active capital account management; countries' capacity to resort to or actively promote capital controls could help their stability, that of the world economy and, by extension, the viability of the international trading system as a whole. The new attitude towards capital controls indicated that economic thinking in international institutions had heeded the lessons of the financial crisis.

27. With regard to the international reserve system, the General Assembly and the Group of Twenty had discussed the introduction of a new reserve medium that would help stabilize economies subject to speculative attacks and reduce the need for countries to accumulate foreign exchange reserves. Therefore, the UNCTAD proposal for reform of the international financial system would focus on reform of the exchange rate system. The goal would be to maintain a stable real exchange rate across countries through flexibility of the nominal exchange rate and adjustment on the basis of key indicators such as domestic price levels, labour costs or inflation rates.

28. The proposed new system would avoid large speculative capital flows of the carry trade type, which were often prompted by interest rate differentials that triggered a speculative spiral of the exchange rate since the initial capital flow led to an appreciation of the currency and attracted further speculation. However, if financial market participants anticipated no further currency appreciation, but rather a depreciation that made up for the potential interest arbitrage, there would be no motivation for speculation. Such a system, by maintaining a stable real exchange rate, would make it possible to avoid large and lasting current account deficits or surpluses that could result from the impact of volatility in financial markets and from deliberate "beggar-thy-neighbour" policies designed to artificially depreciate currencies in order to gain international market share. He hoped that the UNCTAD proposal would be discussed in other forums and that, once adopted, it would increase the stability of the

international financial system and create greater coherence between international trade and finance.

Interactive dialogue

29. **The President** recalled that, in chapter IV of his note on coherence, coordination and cooperation on financing for development (E/2011/74), the Secretary-General had raised several issues for discussion, including how the United Nations system could more effectively promote South-South and triangular development cooperation; how capital-account policies and other policies affecting capital flows could be made more effective in responding to capital surges and reversals; what measures were needed to promote financial deepening and structural reforms in middle-income countries that could help deal with volatile capital flows; what steps should be taken to strengthen multilateral coordination on policies influencing capital flows; what the form of the global framework to govern or oversee international capital movements should be; whether there should be global "rules of the game" for cross-border capital flows; whether the issues related to cross-border capital flows should be a part of the ongoing reform of financial regulatory systems; and what path the reform of the international reserve system should take.

30. **Mr. Heller** (Mexico) said that middle-income countries, particularly in Latin America, had escaped the worst effects of the economic and financial crisis as a result of fiscal discipline that put them in a prime position to foster the growth and recovery of the global economy. However, they continued to face significant challenges, including inequality, poverty and vulnerability to external shocks, which required the continued support of the international community. Development progress needed to be consolidated and efforts should be made to avoid backsliding.

31. Middle-income countries had specific needs that could not be resolved with a one-size-fits-all approach. In times of limited resources, financial support for those countries should be viewed not as competition, but as positive synergy that could create greater development opportunities for all. Capacity-building was also important as a driver of regional development; it could be provided through South-South, triangular or trade cooperation. It was vital for States to fulfil all the commitments made in the Monterrey Consensus and reaffirmed at Doha in order to mobilize financial resources for economic growth and achievement of the MDGs. It was also vital to resist protectionism and promote trade financing, recognizing the right of developing countries to make use of the safeguard flexibilities and mechanisms in accordance with the agreements of the World Trade Organization (WTO), and to restructure the amounts and scope of developed-country agricultural subsidies.

32. He asked the panellists what their institutions were doing to foster the participation of middle-income countries in the development efforts of the least developed countries, particularly through South-South cooperation and trade.

33. **Ms. Mucchala** (Observer for Third World Network) said that monetary policy expansion in the United States of America and other advanced economies had stimulated an influx of capital inflow to middle-income countries that had led to currency appreciation, widening current account deficits, credit and asset bubbles and the threat of a capital outflow surge. Currency appreciation disrupted export competitiveness, increased the price of imports and affected employment in the export manufacturing and industrial sectors that formed the backbone of many middle-income economies.

34. While currency-market intervention was a common response to appreciation in middle-income countries, it only exacerbated global imbalances: middle-income countries built up their precautionary reserves, which yielded extremely low interest rates and were not allocated to the real economy of production, jobs, wages and services. The capital and current account surpluses in middle-income countries, which had reached 8 per cent of aggregate gross domestic product (GDP) in 2007, had been recycled to the advanced economies as investment in international reserves. There was an urgent need for reform of the global reserve system through diversification of the reserve currency and an orderly adjustment of the imbalance between surplus and deficit countries.

35. In recent months, the International Monetary Fund (IMF) had been developing a coherent position on capital flows, including cross-border flows, which it intended to apply to its policy guidance for member States and to reflect in its surveillance measures and in loan conditions. Such a one-size-fits-all approach was problematic in a world where countries were at diverse stages of development and needed national policy space to design measures that matched their needs.

36. **Ms. Kantrow** (International Chamber of Commerce) said that there was global consensus on the challenges facing humanity and that a road map for cooperative action by Governments, business and other sectors had been developed. While the main responsibility for addressing those challenges lay with Governments, concerted effort and partnership by all actors would be required. The United Nations provided a platform for constructive engagement of the business sector in such efforts. Creating an enabling environment for enterprises of all sizes to develop, create jobs and pursue technological innovation and cooperation — coupled with sound governance and policies designed to reduce barriers to international trade and FDI — offered a way out of poverty and towards sustainable development.

37. The business sector shared the general concern at the rise in protectionist pressures and supported the restarting of the Doha Round with practical goals and serious attention to development issues. It was incumbent on the developing, as well as the developed, world to resist protectionist pressures.

38. **Mr. Errázuriz** (Chile) said that the specific issues of middle-income countries were important since a majority of United Nations Member States fell into that category. Indeed, General Assembly resolutions 63/223 and 64/208 had stated that middle-income countries had specific development needs and particularities and that the international community should support them.

39. There was a need for a new mechanism that would grade middle-income countries according to more than just per capita income, which did not necessarily reflect a country's level of development. The United Nations should also consider establishing a dedicated office or high representative on middle-income countries, without prejudice to the legitimate rights of other categories of countries, particularly the least developed countries, to international cooperation and assistance.

40. **Mr. Suárez Salvia** (Argentina), speaking on behalf of the Group of 77 and China, said that participants should discuss the role of middle-income countries in international cooperation, especially in light of the OECD decision to leave middle-income countries out of the focus of international cooperation and ODA. There should be some discussion of the criteria for that decision, of whether income alone was a useful indicator of the real needs of those countries and of the active role that they could play in South-South or triangular cooperation arrangements.

41. **Mr. Pursey** (International Labour Organization) said it was important for the financial industry to focus on its main task: servicing the real economy and, in particular, smaller enterprises that suffered from a shortage of credit. He wondered whether the catalytic role of ODA in generating productive capacity could be enhanced through a greater focus on productive employment, which in turn would generate domestic financing for development. He also suggested that wage transfers into social protection schemes might also be part of an income-led growth strategy.

42. **Mr. Takamura** (Alternate Executive Director for Japan, World Bank) said that programmes such as the HIPC Initiative could contribute to resolving the incoherence between debt reduction and the need for new resources; he wondered, however, whether debt relief might create a "moral hazard" that could provide a disincentive for good debt management policies. Domestic demand was important for sustainable growth, but merely expanding such demand did not address structural issues that must be addressed in the long term. He asked what role industrial policy should play in addressing those structural issues. It was important to look beyond the immediate task of stabilizing economies in the wake of the recent crisis and to consider what governments could do to foster economic expansion in the future.

43. **Mr. Gutiérrez** (Peru), responding to the statement by the representative of UNCTAD that one problem with the macroeconomic policies of middle-income countries was the tendency to rely on exports as the main avenue for recovery, asked whether domestic demand in those countries was high enough to generate growth and development; if so, such growth should already have been generated.

44. The Observer for Third World Network had said that some middle-income developing countries had excessive levels of reserves; he wondered what an appropriate level would be.

45. **Mr. Rahman** (Bangladesh) said that as a representative of a least developed country, he appreciated the opportunity to learn about some of the problems faced by middle-income countries. On a recent visit to Panama and Uruguay, he had noted a readiness to contribute to South-South cooperation and

had been pleased to hear it echoed by the representatives of Mexico, Chile and Peru at the present meeting.

46. **Mr. Vos** (Director, Development Policy and Analysis Division, Department of Economic and Social Affairs) said that he welcomed continued discussion of the criteria for classifying middle-income countries. The MDG Gap Task Force would continue to assess the potential impact of South-South cooperation, although incomplete data made such calculations imprecise. Given that South-South cooperation differed significantly from bilateral development cooperation between OECD countries, it was possible that new frameworks might need to be developed.

47. ODA should support broad development strategies that strengthened production capacity across various sectors. More aid specifically targeted at employment programmes was not the best use of funds. It was more important to match assistance to specific financing needs as part of an overall strategy in order to align it more effectively with national needs. There was no question that there were links between poverty and gaps in social protection. And while debt relief clearly entailed moral hazard, that risk could be reduced if relief was provided as part of an agreed and orderly sovereign debt workout mechanism.

48. **Mr. Kotte** (Head, Macroeconomic and Development Policies Branch, Division on Globalization and Development Strategies, United Nations Conference on Trade and Development) said that the most important form of South-South cooperation was regional cooperation, especially for middle-income countries that had achieved a degree of industrial capacity and were not dependent on the export of one or two primary commodities. The data showed that for such countries, the volume of intraregional trade was greater than the volume of trade with countries outside their regions. Intraregional trade also developed the domestic demand component of development. It was important to stress, however, that regional trade cooperation should not be limited to trade liberalization; cooperation on infrastructure development was also critical for maintaining trade flows.

49. Reserve accumulations were costly, but since they were usually a response to fluctuations in the value of currency, any calculation of their impact on exports would have to take into account the effect that their absence might have had on exchange rates.

50. There was no question that expansion of the domestic financial sector was crucial for domestic growth. But whereas the import of capital goods could not be achieved without foreign loans, domestic financial sectors could be financed by domestic resources, including central bank lending, which had proven no less reliable than market-driven private investment in that regard. Any aspect of development financing that could be generated within a country itself made that country less dependent on foreign capital inflows.

51. He was less than enthusiastic about the concept of income-led growth because, unlike wage earners, pension recipients did not generate added value. There was no question that an active industrial policy had been a component of virtually every successful case of industrial development, but industrial policy alone would not be sufficient without the macroeconomic conditions necessary to attract investment. Long-term policies should focus on growth driven by increased domestic demand in order to avoid the potentially damaging effects of overreliance on exports.

52. There was no optimal level for reserves; the amount held by a country was a function of that country's perception of its vulnerability to external shocks, and middle-income countries were more vulnerable to such shocks than least developed countries. More easily accessible international sources of liquidity, such as IMF loans and internationally agreed symmetric currency intervention that addressed undervalued and overvalued currencies simultaneously, would lessen the need for large reserve holdings.

53. **Mr. Iziraren** (Morocco) said that some countries, notably in Africa, could generate enough domestic capital to stimulate growth and had no means of attracting investment other than low wages. He wished to know what the best policies for creating genuine growth and employment in developing countries were, given their lack of infrastructure, technology and qualified labour.

54. **Mr. Mero** (Observer for Tanzania) said that however the statistics were expressed and whatever economic reasons were given, it was shameful that in a world of plenty, poverty and inequality were rapidly increasing. He asked what the real obstacles to completion of the Doha Round were; how governments

with small economies could be expected to spare resources for public investment in the "green economy"; and how countries could resolve balance-of-payments issues in the face of exchange rate volatility, commodity price fluctuation and deterioration of the rules-based international trading system.

55. **Mr. Zdorov** (Observer for Belarus) said that ensuring free trade, which would strengthen international collaboration and promote achievement of the MDGs, was one way to help middle-income countries. Politically motivated, coercive economic measures targeting particular countries were not acceptable. Trade preferences could stimulate the growth of international trade. The international financial institutions should pay particular attention to ways of accelerating international economic development, including cooperation in the field of energy. Energy security and the development of innovative energy technologies were of particular importance. Information on specific measures and approaches that could be taken in order to strengthen the economic potential of middle-income countries and transform them into catalysts of international economic recovery would be appreciated.

56. **Ms. Price** (Observer for the Company of the Daughters of Charity of St. Vincent de Paul) said that any sovereign debt workout mechanism should be fair, transparent and impartial. Debtors and creditors should have equal rights at the table and disputes should be resolved by an independent authority. Care should be taken to ensure that the terms of debt repayment were not so severe as to restrict the ability of governments to attend to the basic rights and needs of their citizens and to achieve the MDGs. She supported the idea of establishing an expert group to devise a fairer system of debt repayment.

57. **Ms. Samuels** (Observer for Global Clearinghouse for Development Finance, accredited to the Financing for Development process) said that she welcomed the general recognition that development financing was a challenge for both middle-income and least developed countries. The business community made no country-category distinction when considering investments in small and medium-sized enterprises. More funding for project development was needed. Risk mitigation was particularly important in the case of middle-income countries, and more performance benchmarks should be set. Any expert group created to address the issue of a sovereign debt workout mechanism should include representatives of the private sector. Her organization was putting together a working group to address the infrastructure concerns of middle-income countries.

58. **Mr. Wang** Qun (China) said that for the past ten years, middle-income countries had been steadily contributing to global economic growth, but they continued to face daunting challenges in the areas of poverty eradication, health care, education and climate change. As the Secretary-General had pointed out in his note (E/2011/74, para. 43), those countries were home to 64 per cent of the world's poor population; thus providing long-term, adequate and predictable financial support for their development efforts was key to achieving the MDGs.

59. Although he agreed with the representative of UNCTAD on the importance of domestic demand, exports remained key to the economies of many middle-income countries despite the unfavourable international trade environment and rising protectionism. The "green economy" in the context of poverty alleviation was to be featured as a theme at the United Nations Conference on Sustainable Development, to be held in Brazil in 2012, but many developing countries still suspected that such an economy would simply lead to "green trade barriers". He wondered how "green protectionism" could be prevented and whether there were any specific trade policies that could be applied under the current multilateral trade mechanism to help developing countries develop their "green economies". Furthermore, in light of the heavy flows of international capital into some middle-income countries since late 2009, which had resulted in serious inflation risk and had had a negative impact on the global economic recovery, it would be useful to know whether there were any specific policy measures to help middle-income countries respond to such capital flows so as to maintain the stability of their economies and whether capital management was the only efficient method of dealing with the problem.

60. **Mr. de Almeida** (Observer for Brazil) said that his country had taken a number of steps to mitigate the worst effects of capital inflows and currency overvaluation and was considering further action in that regard. He would welcome any UNCTAD or Department of Economic and Social Affairs proposals to undertake research on capital control measures.

61. **Mr. Ovalles-Santos** (Bolivarian Republic of Venezuela) said that he welcomed the comments on the reserve system and on adjustment measures. Clearly, some currencies were in a priority situation. More detailed opinions on the recent discussions that had taken place in Europe and other parts of the world would be appreciated.

62. **Mr. Hassani Nejad Pirkouhi** (Observer for the Islamic Republic of Iran) said that it was not clear whether the recommendations on domestic demand made by the representative of UNCTAD were intended generally, or whether they had been directed only to countries experiencing underconsumption. When countries consumed beyond their capacity to produce or repay, deficits and crises followed. Moreover, an increase in domestic demand led to inflationary pressure, a subject that merited further discussion. Further information on how consumption should be financed in countries which lacked caution would be appreciated. A meeting of three hours or more should be held in order to discuss the contributions of middle-income countries and the challenges they faced in the global economy.

63. **Mr. Elkaraksy** (Egypt) said that while middle-income countries contributed to world output, they faced many challenges. The new geography of poverty should be taken into account in the provision of support to those countries. Debt restructuring was an issue of particular concern to African middle-income countries. Mechanisms were needed to resolve the situation. Lastly, multilateral development banks must provide faster, less expensive services. It would be helpful to know whether those banks had support mechanisms for middle-income countries.

64. **Ms. Dio** (Observer for the Sisters of Charity Federation) said that in the current situation, food speculation was condoned; developing countries were prevented from providing needed support to domestic small farms and businesses; corporations could demand huge tax exemptions and exemptions from domestic environmental and labour laws; millions lacked sufficient food; and global trade, aid and debt policies made it difficult or impossible for countries to implement their own regulations. For all of those reasons, new rules for cross-border transactions were needed. But in order for those rules to be established, assumptions and priorities must change. Competition must not be placed before cooperation, exercise of power before sharing of power or paternalism before equality. When independent progress trumped the common good, the challenges were only perpetuated. New rules would require a new mentality.

65. **Mr. Schuldt** (Ecuador) said that he welcomed the inclusion in the discussion of the issue of debt, which was associated with great risk for developing and middle-income countries; the problem had to do with private-sector capital flows, interest rates, concentration of credit lines in a small number of countries, conditionalities for credit set by the international financial institutions, and vulture funds. It was not clear what the obstacles to the development of a transparent mechanism for addressing sovereign debt were, apart from the collective action clause that was being used as a pretext for abandoning the 2001 IMF proposal to create a sovereign debt resolution mechanism. Perhaps regional solutions could be a first step towards a global mechanism for resolving the debt problem.

66. **Mr. Fernandez-Arias** (Spain) said that he would appreciate further information on ways of measuring South-South cooperation both quantitatively and qualitatively, on the instruments available to do so, and on ways in which such measurement could be improved.

67. **Mr. Vos** (Director, Development Policy Analysis Division, Department of Economic and Social Affairs) said that with regard to the lack of progress on the Doha Round, one issue of concern had to do with the degree of industrial policy space that developing countries would have when the Round was concluded. There were strict rules under the Round, which set out a common framework for speed and degree of compliance with WTO rules. Under the new system, there would be no export subsidies and many countries that wanted to adopt industrial policies might lack the resources to do so. There were also controversial trade policy issues. Successful conclusion of the Round would be possible only if a package deal could be reached as each element of the negotiations was contingent on others. With a more uniform WTO arrangement, some least developed countries' current bilateral or regional trade agreements might be lost. The costs and benefits for various parties must be negotiated in order for the Round to move forward.

68. The "green economy" and, in particular, "green labelling" might be a source of new forms of protectionism. Unequal capacities to stimulate new

"green industries" and fund research might introduce inequalities in competition on international markets. Issues of "green industrial policy", its implications for trade, and financing mechanisms to help countries with lesser means "green" their economies must also be taken into account in the Round. The "green" issue could not be settled alone; it required coordination in the areas of financing and technology transfer.

69. There was indeed a need for an independent, transparent debt mechanism. Each case was unique, but such a mechanism should provide a framework. The absence of debt mechanisms in the European Union had made the problems faced by Greece and other countries over the past year more difficult and time-consuming to resolve; in fact, they had yet to be resolved. The lack of such a mechanism also increased the likelihood of "moral hazard" issues and provided no protection against downgrading on the global market, which resulted in harsher conditions for debt resolution. The issue was important for low-income, and especially HIPC, countries because much of their debt was owed to countries that were not members of the Paris Club and thus was not covered by the existing mechanisms.

70. There were ongoing discussions in the World Bank and IMF on improving criteria for defining debt sustainability and determining whether a country was in debt distress. The relationship between debt and the achievement of development goals was complex; attempts to achieve development goals might result, in the short run, in higher debt that might even appear unpayable. However, there would be gains over time. Such factors must be incorporated into the debt framework. It would be helpful for countries to pool their reserves in order to reduce individual countries' need to ensure themselves against external shocks. Pooling such risks would be cost-effective; it could help to leverage and mobilize development financing around the world and reduce the cost of lending by multilateral development banks.

71. South-South cooperation was difficult to measure as it took diverse forms and was often embedded in broader projects. However, attempts were being made to do so through the OECD Development Assistance Committee (DAC).

72. **Mr. Kotte** (Head, Macroeconomic and Development Policies Branch, Division on Globalization and Development Strategies, United Nations Conference on Trade and Development) said that the way to make middle-income countries an important element in the world economy was to strengthen their productive capacity through higher fixed capital formation and accumulation. The three key variables for achieving that goal were the exchange rate and, in particular, avoidance of currency overvaluation; interest rates, which were a crucial factor in investment decisions; and wages, which determined production costs and domestic consumption levels. The long-standing approach of focusing on the cost rather than the demand element of wages must be reconsidered. Inflation must be kept low and wage increases should be linked to productivity gains. Such an approach would have a stabilizing effect and would provide monetary conditions more favourable to investment finance.

73. Since the international exchange rate system involved comparisons among currencies, it was by definition a bilateral or international variable. Exchange rate management required long-term cooperation. Since 1973, there had been no system for managing exchange rates and many financial and currency crises had ensued. The Group of Twenty had rightly acknowledged the importance of reviewing the exchange-rate system.

74. It was true that capital account liberalization could optimize the international allocation of capital. However, uncontrolled capital movements could be disruptive to international trade flows and could facilitate capital flows unrelated to trade. Central banks should be able to manage capital flows by taxing them and imposing quantitative restrictions, which, under international trade rules, could be temporary and subject to international supervision by IMF or other financial institutions. Such elements were important components of a workable system that was preferable to a blanket assumption that liberalization was always better than regulation. Liberalization could lead to optimal outcomes but, as the recent global crisis had demonstrated, that was not always the case.

75. Industrialization and diversification were necessary if the volume of imports could not be funded wholly by export earnings. In such cases, capital inflows were required in order to generate additional investment products and allow for debt repayment. It was a theoretical error to believe that there must be a pool of savings in order to fund investment in, for

example, infrastructure projects; they could be funded from liquidity provided by central banks.

76. Rethinking development strategy was not only an institutional issue, but an economic and macroeconomic one as well. Additional consumption would pay for itself in so far as it followed an increase in productivity. Development strategies that involved increasing domestic demand and wage-led growth would decrease middle-income countries' dependence on world markets.

77. Lastly, public employment programmes and a minimum wage could also reduce poverty, as seen in middle-income countries such as Brazil, India and Argentina.

The meeting rose at 6 p.m.